

**VIRGINIA SMALL BUSINESS
FINANCING AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Virginia Small Business Finance Authority for the year ended June 30, 2004 found the following:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance with applicable laws and regulations tested or other matters.

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Overview

The Virginia Small Business Financing Authority provides Virginia's businesses access to capital through public financing in an effort to maximize employment opportunities throughout the Commonwealth. The Authority provides this assistance through the following programs.

| | |
|---|--|
| <u><i>Child Day Care Program</i></u> provides assistance to child care businesses through installment loans, which can either enhance the quality of care, or to meet or maintain state or local child care requirements, including health, safety, and fire codes. | <u><i>Economic Development Loan Program</i></u> provides gap financing for working capital and fixed asset financing to new and expanding Virginia businesses that are creating or saving jobs in Virginia, or are providing for the quality of life in the community. |
| <u><i>Loan Guaranty Program</i></u> provides participating local banks deficiency loan guarantees for loans made to Virginia businesses that do not have access to capital. Borrowers contact participating Virginia banks to apply for this assistance. | <u><i>VSBFA Direct Program</i></u> provides direct financing for working capital and fixed asset financing to new and expanding Virginia businesses that are creating or saving jobs in Virginia, or are providing for the quality of life in the community. |
| <u><i>Small Business Environmental Compliance Assistance Program</i></u> is a revolving loan program for small businesses that need equipment to comply with the Clean Air Act or for voluntary pollution prevention. | <u><i>Industrial Development Bond Program</i></u> under which the Authority is a conduit issuer of tax-exempt and taxable industrial development bonds for qualifying Virginia businesses and 501(c) 3's. |
| <u><i>Virginia Capital Access Program (VCAP)</i></u> encourages banks to lend to small businesses. They do this by providing a matching reserve to the bank that they can use to offset default losses. | <u><i>Southside Region Tobacco Capital Access Program (TCAP)</i></u> is a program that is very similar to the VCAP program but provides assistance to small businesses in the Southside Tobacco Region. |

The Department of Business Assistance houses the Authority, pays certain administrative expenses, and the Director appoints the Authority's Executive Director. An eleven-member board, appointed by the Governor, oversees the Authority's operations.

The operations of the Authority consist of reviewing program applications, conducting credit analysis, monitoring the progress of projects that have received funding, and servicing loan receivables. In addition, the Authority monitors the state ceiling for the Virginia Private Activity Bond Allocation. This allocation consists of the Industrial Development Bond Allocation, the Housing Bond Allocation, and the Governor's State Allocation.

The Authority derives operating income from interest earned on loans receivable, application and bond fees, and any recovery of loans previously charged off. Non-operating income consists of securities lending and interest earned from investments. The Authority maintains the majority of its cash with the Treasurer of Virginia. Operating expenses include loan write-offs, matching enrollment fees for the capital access programs, personal services, and contractual services. Non-operating expenses include grants and disbursements to localities and security lending. The Authority's expenses exceeded revenues due to \$1,749,898 in loan write offs, which the Authority's cash position enabled it to cover. The following is a summary of the financial activity of the Authority.

Assets and Liabilities for Fiscal Year 2004

Assets:

| | |
|-------------------------------------|----------------------|
| Cash-Treasurer of Virginia | \$ 15,086,608 |
| Cash-Not With Treasurer of Virginia | 122,150 |
| Investments | 6,331,134 |
| Receivables (Net) | 10,419,570 |
| Restricted VCAP Assets | 1,956,042 |
| Accrued Interest Receivable | <u>67,376</u> |
| Total Assets | <u>\$ 33,982,880</u> |

Liabilities:

| | |
|--------------------------------------|---------------------|
| Obligations Under Securities Lending | \$ 1,499,316 |
| Matching enrollment fees | <u>1,991,793</u> |
| Total Liabilities | <u>\$ 3,491,109</u> |

Revenues and Expenses for Fiscal Year 2004

Revenues:

| | |
|--|-------------------|
| Interest income | \$ 161,731 |
| Loan application and guaranty fees/bond fees | 140,707 |
| Interest earned from investments/LGIP | 399,640 |
| Recovery of charge-offs | 83,379 |
| Security lending | <u>21,592</u> |
| Total | <u>\$ 807,049</u> |

Expenses:

| | |
|--------------------------|---------------------|
| Loan write-offs | 1,749,898 |
| Matching enrollment fees | 364,717 |
| Personal services | 372,204 |
| Contractual services | 33,780 |
| Security lending | 18,243 |
| Miscellaneous | <u>7</u> |
| Total | <u>\$ 2,538,849</u> |



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 12, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Virginia Small Business Financing Authority** for the year ended June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Authority's activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS; reviewed the adequacy of the Authority's internal control; and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Authority's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles, classes of transaction, and account balances.

Revenues
Expenditures
Payroll

We gained an understanding of the overall internal controls surrounding these cycles, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System for the cycles listed in the scope section of this report.

We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this letter with management at an exit conference held on April 18, 2005.

AUDITOR OF PUBLIC ACCOUNTS

SW/whb

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Richmond, Virginia

Executive Director

Scott Parsons

The Board

Andrew Brownstein
Chairman

Richard Brown
James Cheng
Esther Corpus
Hattie Hamlin

Leon Moore
Jeffrey Jones
Pallabi Saboo
Jane Scott-Cantus

Ex-Officio

Michael Eisenman
Jody Wagner
Edward Hamm
Andria McClellan